

Medicare's payments for physician services

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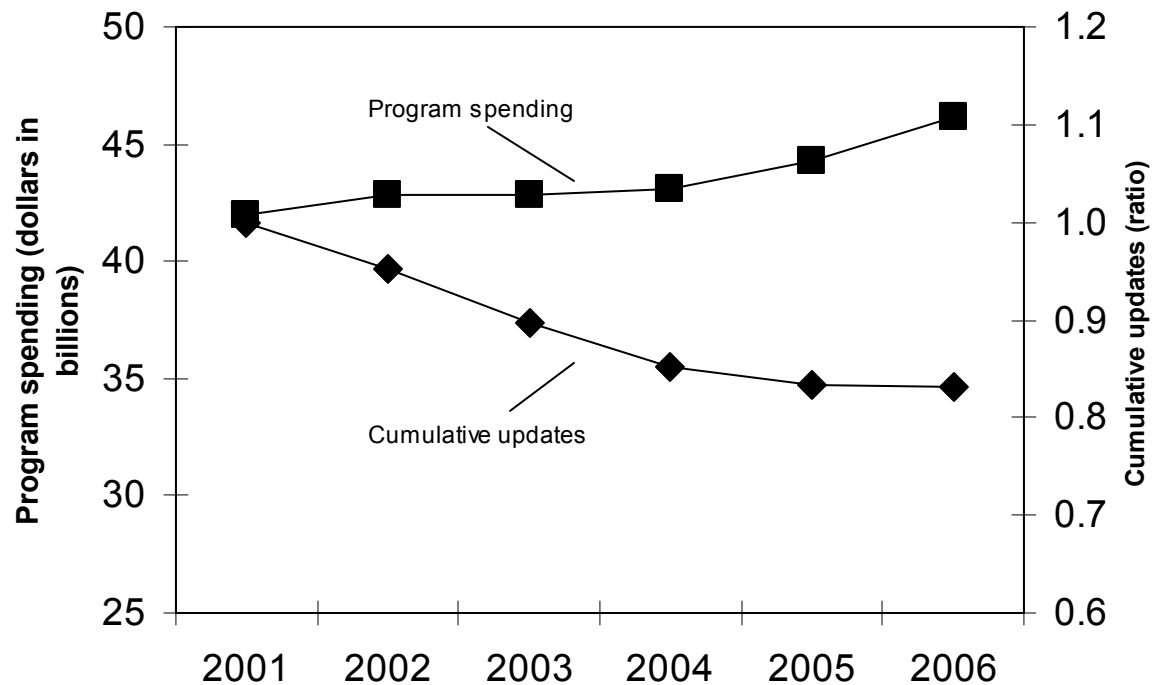
Key points

- Rationale for current payment system
- How it works
- Issues
 - Series of payment reductions
 - Entry and exit of physicians (participation)
 - Increases in premiums for professional liability insurance
 - Geographic adjustment of payments

Overview of sector in 2001

- 85 percent of beneficiaries served
- 498,000 physicians providing services
- Program spending of \$42 billion
 - 17% of Medicare total
- Growth rate
 - 4.9% 1992-2001
 - 3.8% 2002-2006 (CBO)
- Payment system: fee schedule

Projected spending



Source: 2002 annual report of the Boards of Trustees of the Medicare trust funds.

How Medicare paid physicians before 1992

- Payments based on charges
- Problems
 - charge-based payments considered inflationary
 - relative to resource costs, payments higher for procedures and lower for visits
 - geographic variation in payment rates: not explained by differences in practice costs

Structural elements of a payment system

- Service definitions
 - Unit of payment
 - Classification system
- Relative values
- Conversion factor

Structural elements of payment system, continued

- Adjustments for local market conditions
 - Variation in the cost of providing care (input prices)
- Other adjustments
 - Teaching
 - Type of provider
- Updates of payment rates

Physician fee schedule

- Introduced in 1992
- Elements
 - Coding system for 7,000+ services
 - Resource-based relative value scale (RBRVS)
 - Adjustments
 - Geographic areas
 - Nonphysician practitioners
 - Conversion factor

Example

Office visit, New York City (Manhattan)

	Relative value		Geographic adjustment		Adjusted relative value
Physician work	0.67	X	1.09	=	0.73
Practice expense	0.69	X	1.35	=	0.93
PLI	0.03	X	1.67	=	0.05
					1.72
	Conversion factor			X	\$36.20
	Payment rate				\$62.09

RBRVS

- Classification of resources
 - physician work: time, effort, skill, stress
 - practice expense: nonphysician staff, rent, equipment, supplies
 - professional liability insurance
- Data sources
 - Physician surveys
 - Practice cost data
 - PLI premiums

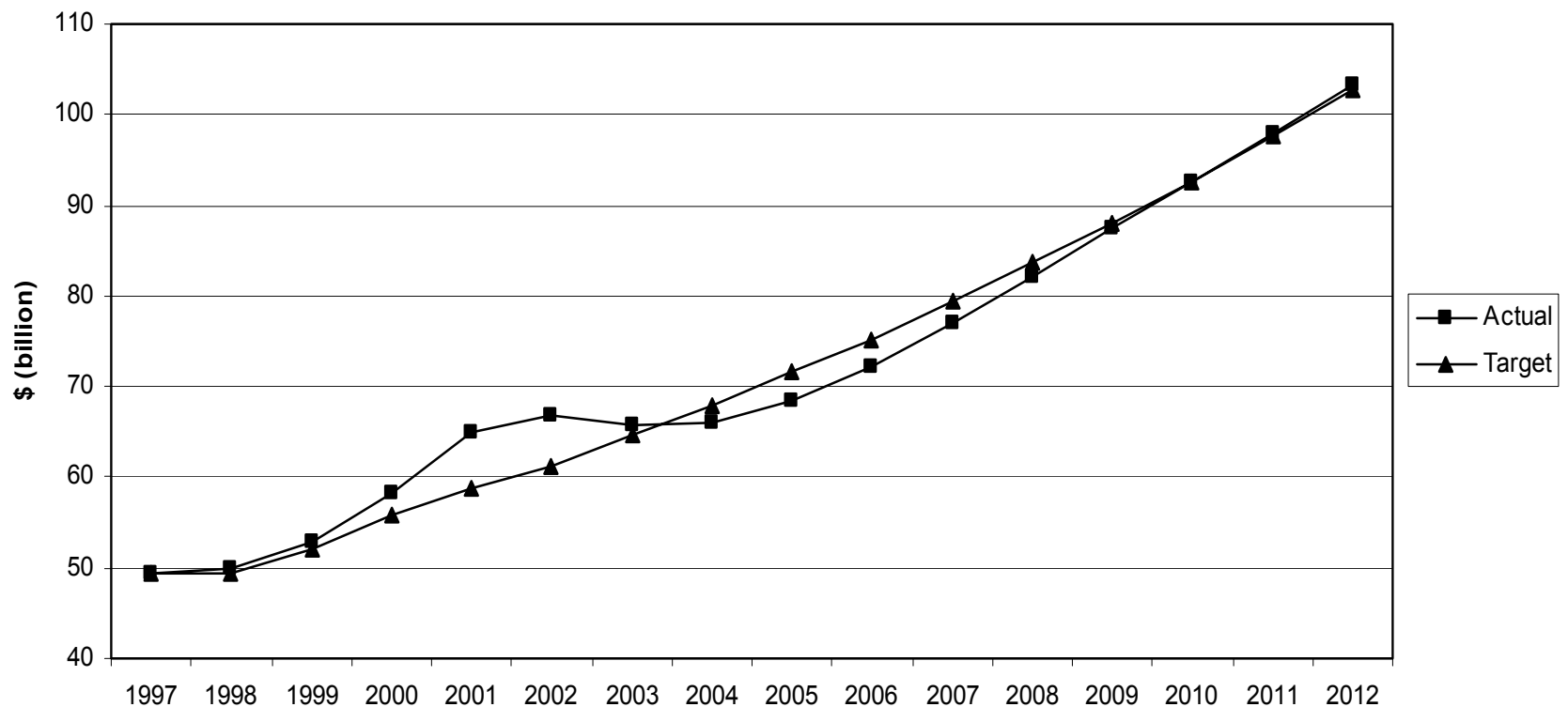
Conversion factor

- Translates the product of relative values and geographic indexes into dollars
- Initially, set to be budget neutral
- Now, updated annually based on inflation and achievement of a spending target

Method of updating payments

- Sets target for physician services spending that is determined by a sustainable growth rate (SGR)
- SGR based on growth in the national economy as measured by real GDP
- Conversion factor adjusted up or down if actual spending differs from the target

Recent experience with spending target



Components of spending

$$\begin{array}{l} \text{Number of} \\ \text{beneficiaries} \end{array} \times \begin{array}{l} \text{Number of} \\ \text{services per} \\ \text{beneficiary} \end{array} \times \begin{array}{l} \text{Payments} \\ \text{per service} \end{array} = \begin{array}{l} \text{Total} \\ \text{program} \\ \text{expenditures} \end{array}$$

Recent growth in use of services

Type of service	Annual percentage change		
	1999-2000	2000-2001	2001-2002
All	4.3 %	2.3 %	4.3 %
Evaluation and management	1.6	0.7	2.9
Imaging	8.8	8.9	9.4
Procedures	7.1	1.9	3.5
Tests	2.6	5.2	9.0

Explaining growth in use of services

- Diffusion of technology
 - New innovations
 - Indications for use of services
- Errors in payment rates
- Changes in coding practices
- Public awareness
- Geographic variation in service use
- Supplier-induced demand

Entry and exit of physicians

- Physicians billing traditional Medicare
 - 460,700 in 1995
 - 498,232 in 2001
 - Growth higher than enrollment
- Participation rate
 - Physicians accepting assignment for 1 year
 - 90 percent rate in 2002
 - Interpretation issues

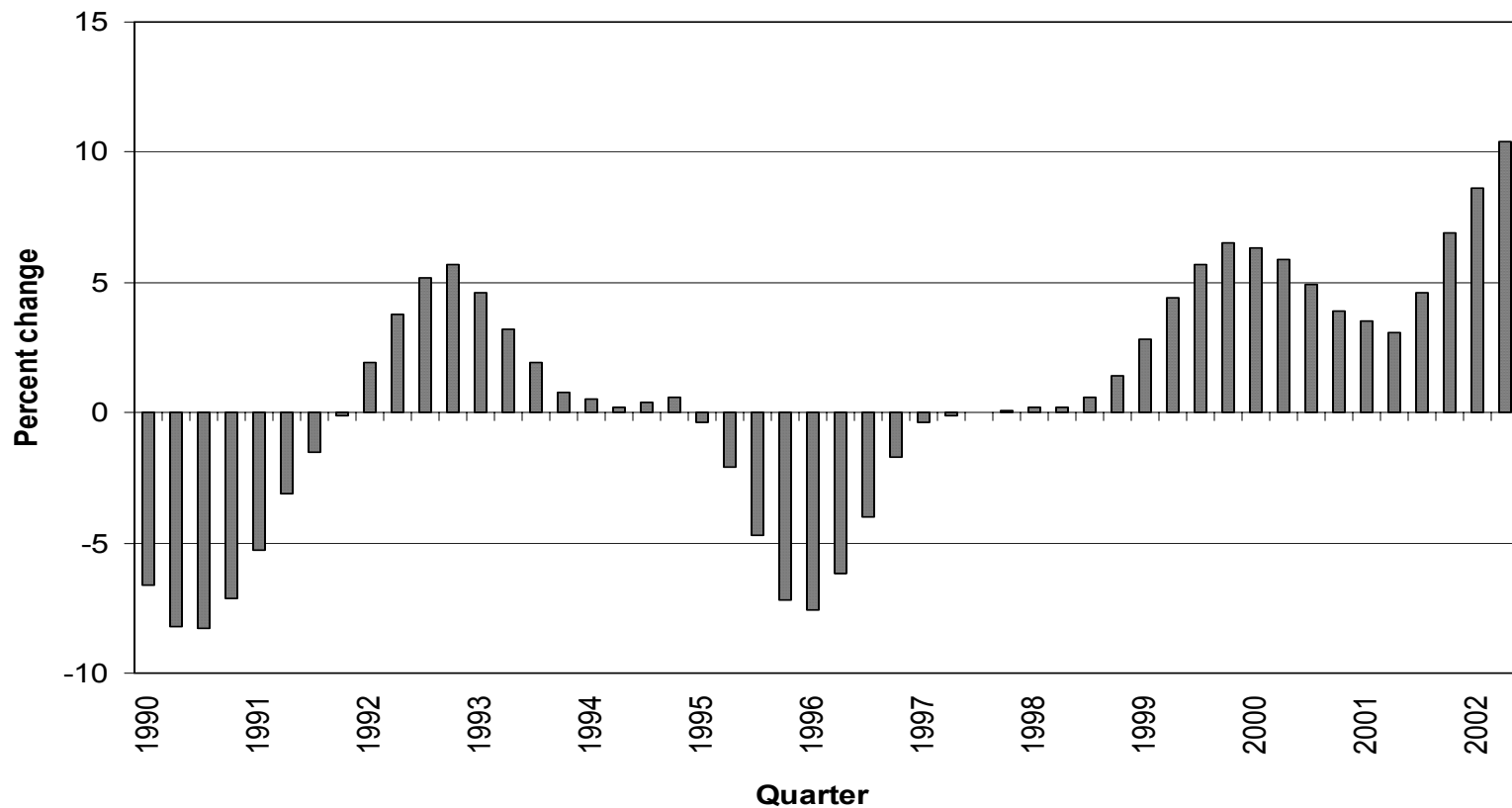
Medicare in the market for physician services

- MedPAC's 2002 survey of physicians
 - 96 percent accepting at least some new Medicare patients
 - Fewer accepting all new patients
 - Lower acceptance of Medicaid and HMO
- Medicare vs. private insurers' rates
 - Difference narrowed in 2000 and 2001
 - Widened in 2002
 - Still not as great as the mid-1990s

Professional liability insurance

- Financial protection for physicians who are sued for malpractice
- Premiums equaled 3 to 5 percent of revenues from 1990 to 1998
- Premium increases have followed a cyclical pattern
- Sharp increases recently

Changes in PLI premiums



Accounting for the cost of PLI in the physician fee schedule

- Services: PLI component of the RBRVS
- Geographic areas: Geographic adjustment of payments
- Annual changes in premiums: Payment updates

Geographic adjustment of payments for physician work

